

**DEPARTMENT OF MILITARY AFFAIRS
BLACKSTONE, VIRGINIA**

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the Department of Military Affairs for the two-year period ended June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a certain matter that we consider a reportable condition; however, we do not believe it is a material weakness; and,
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INDEPENDENT AUDITOR'S REPORT	1-2
AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS	3-4
INTERNAL CONTROL FINDING AND RECOMMENDATION	5
AGENCY OFFICIALS	6

January 22, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Military Affairs** for the two-year period ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Revenues
- Expenditures
- Fixed Assets
- Federal Contract Management

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in

operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition, entitled "Strengthen Controls over CARS and ACF2 Access" is discussed in the section entitled "Internal Control Finding and Recommendation." We do not believe that this reportable condition is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on February 15, 2001.

AUDITOR OF PUBLIC ACCOUNTS

KKD:aom
aom:15

AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS

The Department of Military Affairs provides facility maintenance, skilled trades, and administrative functions for the Virginia National Guard. The Virginia National Guard reinforces the active military during wars and other crisis. The Department also provides assistance during times of civil disturbance or natural disasters. Funding comes primarily from state and federal contracts with the National Guard Bureau. On the average, Military Affairs receives 60 percent of its funding from state and federal contracts, 35 percent from state appropriations, and the remainder from rental of military cottages and armories. Specifically, the Department received \$15,363,408 and \$17,523,751 in federal funding during fiscal years 1999 and 2000, respectively. The Department received \$12,076,197 and \$9,324,918 in state general fund appropriations during fiscal years 1999 and 2000, respectively.

The Department's responsibilities also include maintaining several facilities throughout the state including its administrative headquarters, 45 armories, 2 Air Guard sites, and 13 maintenance sites. The majority of the Department's expenses support the maintenance and operation of these facilities, and personnel costs. In addition, during fiscal years 1999 and 2000, the Department incurred expenses for such emergency events as Hurricane Floyd, Drought Hay Bale, and Y2K. Most of these emergency expenses occurred during fiscal year 2000, and primarily, funding came from the Department of Emergency Management through reimbursements totaling \$967,773.

The Department relocated its administrative headquarters from Richmond, Virginia to Fort Pickett—Blackstone, Virginia on December 7, 1998. Under the federal Base Realignment and Closure action of 1995, Fort Pickett came under the control of the Department of Military Affairs and serves as the training site for the Virginia National Guard. The Department moved its headquarters to the site to support these operations.

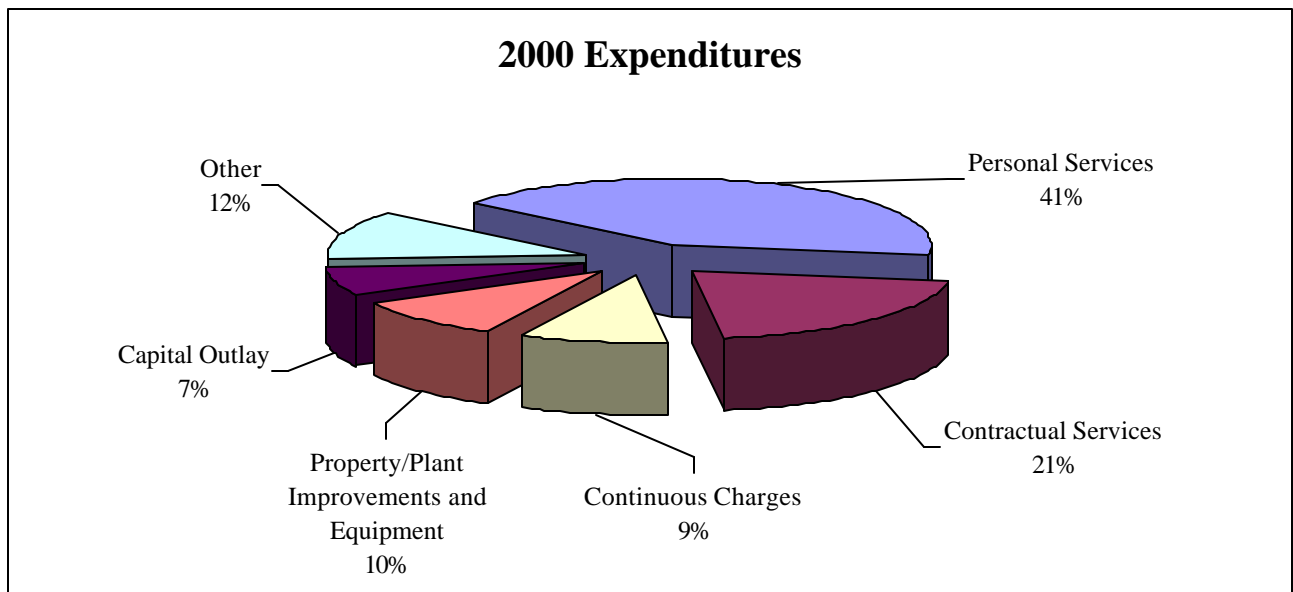
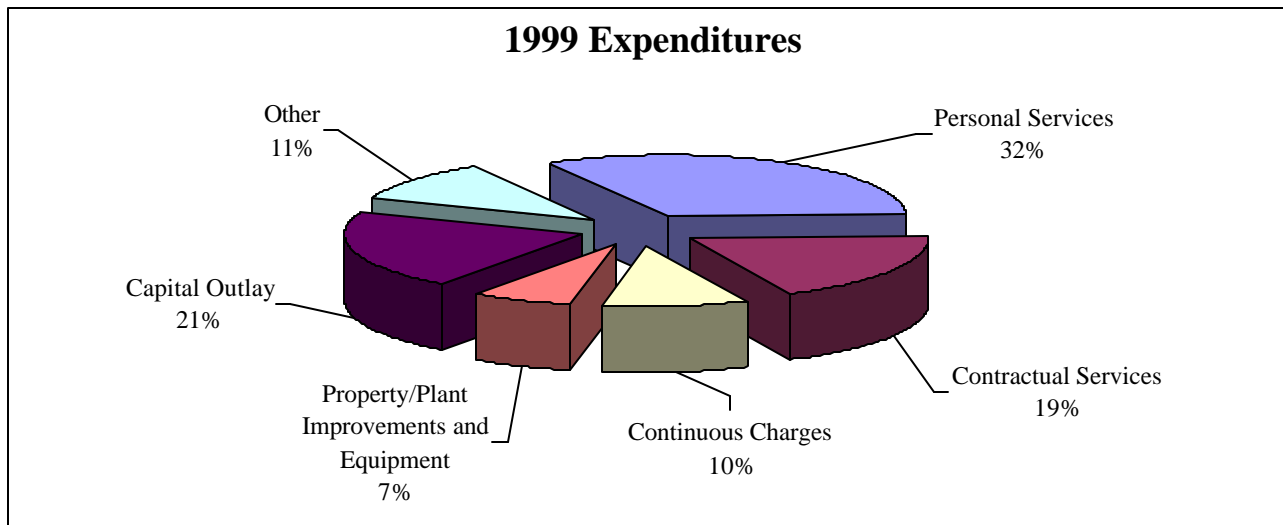
The Department has a “use agreement” with the US Department of the Army for the training and support of the Virginia National Guard and other Department of Defense activities at Fort Pickett for a nominal fee of one dollar per year. Transfer of ownership of the base was not part of the use agreement. For any actions or remediation of environmental laws associated with the base, the Secretary of Defense agreed to hold the Department harmless; therefore, the Commonwealth does not accept any liability or responsibility. While either party may terminate the agreement, the federal government agreed not to terminate the agreement for a period of 50 years with respect to the portion of the base used for the operation of the Department of Military Affairs State Headquarters.

As previously stated, the Department primary funding is federal contracts. Such contracts facilitate the receipt of support from the U.S. Department Defense under two federal programs—(1) *Military Construction, National Guard* and (2) *National Guard Military Operations and Maintenance Projects*.

- (1) The *Military Construction* program provides combat-ready reserve force facilities for training and administering the Army and Air Force National Guard units in each state. Characteristic of a construction grant, this program requires annual identification of facility shortfalls and the submission of an environmental impact analysis on proposed construction projects. The Department expended \$1,681,610 and \$585,958 in *Military Construction* funding during fiscal years 1999 and 2000, respectively.
- (2) The *Military Operations and Maintenance* program provides support and services for a wide range of operational projects and activities provided by the State. In general, these

projects include Air National Guard (ANG) projects, Army National Guard (ARNG) projects, and the National Guard Civilian Youth Opportunities Program (ChalleNGe). The Department expended \$14,284,963 and \$15,872,078 in *Military Operations and Maintenance* funding during fiscal years 1999 and 2000, respectively.

The following charts provide a breakdown of the Department's expenditures for the fiscal years ending June 30, 1999 and 2000.



*Other includes Supplies/Materials and Transfer Payments

INTERNAL CONTROL FINDING AND RECOMMENDATION

Strengthen Controls over CARS and ACF2 Access

The Department did not maintain adequate controls and procedures for the addition, alteration, and deletion of employee access to the Commonwealth Accounting and Reporting System (CARS) and ACF2. We found that the Department had not updated seven of ten CARS User Identifications to correspond with the current employee assigned to utilize the access identification. The Department did not submit a Security Table Maintenance Form to the Department of Accounts to request that the employee name be changed to correspond with the current user. The Department also did not suspend the CARS and ACF2 access for one employee after termination. The Department should improve procedures and controls over the addition, maintenance, and deletion of employees' CARS and ACF2 access to ensure the integrity of accounting transactions recorded in CARS.

DEPARTMENT OF MILITARY AFFAIRS
Blackstone, Virginia

Major General Claude A. Williams
Adjutant General

James Gargas
Deputy Administrator